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Comments on the ED Simplifying Earnings per Share submitted by EFFAS Financial Accounting Commission

The European Federation of Financial Analysts' Societies (EFFAS) through its Financial Accounting Commission (FAC) has discussed the proposal for an amendment to IAS 33, Earnings per Share, and it supports a revision of the standard. However, as the FAC believes that the amendment should have a broader scope issuing an amended standard based on the current ED is not suggested. It would be advisable to enter into an ample revision of the standard incorporating certain changes as follows:

1. Aim of reporting diluted EPS

In the ED this is discussed in BC 17-18 while IASB confirms that the objective should be performance oriented, i.e. to present diluted EPS in a time series so that it can be compared with diluted EPS of other periods.

In our opinion analysts are not interested in analysing past diluted EPS. FAC has consistently supported the alternative in BC 17 as analysts need to know potential ordinary shares to properly forecast EPS. Diluted EPS could thus be considered as a warning signal. We have also consistently argued that diluted EPS calculation should be based on the end-of-period market prices. The FAC believes this to be consistent with a "warning signal" objective. The proposed change in new paragraph 46 is therefore welcome.

2. Measurement of the dilutive effect of options

According to the new paragraph 48 options would be considered to be dilutive only when they are "in the money". This seems to neglect the time value although the market values such instruments differently. We believe that it should not be assumed as the present standard does that an option with an exercise price slightly higher than the current market price and with an exercise date years ahead is not dilutive.

3. - Changing how the dilutive effect of convertibles is measured

Currently the dilutive effect is based on a comparison of diluted EPS with basic EPS. However, what determines whether a convertible instrument will be converted is the relationship between the conversion price and the market price.

Regarding the questions on the Exposure Draft, the FAC would like to pinpoint:

Q1. We support that only ordinary shares that are currently issuable for little or no cash should be included in the weighted number of shares outstanding during the period.

Q2. We do agree.

Q3. We agree with the alternative view in AV5 to exclude a dilutive effect of some instruments both in the numerator and the denominator. As stated above, we support a more forward looking approach as the analyst is likely to base his/her calculation on the current standard.

Q 4-6. We do agree.

If you have any questions, please contact Hugo Haarbosch at hhaarbos@xs4all.nl or Rolf Rundfelt at rolf.rundfelt@telia.com.

Yours sincerely,

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EFFAS Financial Accounting Commission (FAC)

EFFAS was established in 1962 as an association for nationally-based investment professionals in Europe. EFFAS headquartered in Frankfurt am Main, comprises 27 member organisations representing more than 14,000 investment professionals. The Commission on Financial Accounting (FAC) is a standing commission of EFFAS aiming at proposing and commenting on financial issues from an analyst standpoint.

FAC is composed of experts from several constituencies participating regularly on international consultations and financial accounting gatherings across Europe. FAC members are Javier de Frutos (Chairman, Spain), Friedrich Spandl (Vice-Chairman, Austria), Jacques de Greling (SFAF, France), Hugo Haarbosch (VBA, The Netherlands), Henning Strom (NFF, Norway), Ivano Mattei (AIAF, Italy), Taras Koval (USFA, Ukraine), Jérôme Vial (SFAA, Switzerland) and Rolf Rundfelt (SFF, Sweden).